

**Date:** Wednesday 21<sup>st</sup> October at 9 am

**Venue:** Microsoft Teams meeting

**Membership:**

Chris White – (Chair - Independent member)

Paul Booth - (STDC Board)

Professor Jane Turner – (Teesside University)

John Baker – (Independent Member)

Cllr Peter Berry (TVCA A&R Representative)

**Agenda**

**1. Welcome & Introductions**

**2. Apologies for Absence**

**3. Declarations of Interest**

**4. Minutes of previous meeting**

Attached

**5. Chief Executive's Update**

Attached

**6. Draft Accounts**

Verbal

**7. Internal Audit Report**

Attached

**8. Update on Internal Audit Actions**

Attached

**9. External Audit – Audit completion report**

Attached

**10. Risk Update**

Presentation - This item is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

**11. Forward Programme & Action Register**

Attached

**12. AOB****13. Date and Time of Next Meeting:**

16<sup>th</sup> December 2020

**Members of the Public - Rights to Attend Meeting**

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sharon Jones, Governance & Scrutiny Officer, [Sharon.jones@teesvalley-ca.gov.uk](mailto:Sharon.jones@teesvalley-ca.gov.uk). 01642524580.

## **South Tees Development Corporation Declaration of Interests Procedure**

1. The purpose of this note is to provide advice and guidance to all members of the Development Corporation Board and Audit & Risk Committee on the procedure for declaring interests. The procedure is set out in full in the Development Corporation's Constitution under the "Code of Conduct for Members" (Appendix 3).

### **Personal Interests**

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Development Corporation. As a general principle, members should act impartially and should not use their position at the Development Corporation to further their personal or private interests.
3. There are two types of personal interests covered by the Constitution:
  - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
    - i. a member of your family;
    - ii. any person with whom you have a close association;
    - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
    - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
    - v. any body as described in paragraph 3 b) i) and ii) below.
  - b. Any other personal interests. You have a personal interest in any business of the Development Corporation where it relates to or is likely to affect:
    - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Development Corporation;
    - ii. any body which:
      - exercises functions of a public nature;
      - is directed to charitable purposes;
      - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

## **Declarations of interest relating to the Councils' commercial role**

4. Financial relationships between the Development Corporation and individual councils do not in themselves create a conflict of interest for Council Leaders who are also Development Corporation Board members. Nor is it a conflict of interest if the Development Corporation supports activities within a council boundary. Nevertheless, there are specific circumstances where the Board may consider entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

## **Procedures for Declaring Interests**

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

### **Register of Interests**

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Development Corporation. If no declaration is received from elected members within 28 days the matter may be referred to the Head of Paid Service of your local authority and Leader of the political group you represent on your council for action. If a Declaration is not submitted within an appropriate timescale you may be prevented from attending committee meetings. Details of any personal interests registered will be published on the Development Corporation's website, with the full register available at the Development Corporation's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

### **Declaration of Interests at Meetings**

7. The Development Corporation will include a standing item at the start of each statutory meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

## **Sensitive Information**

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

## SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE

These minutes are in draft form until approved at the next Committee meeting and are therefore subject to amendments.

**Date:** Wednesday 29<sup>th</sup> July 2020

**Time:** 10am

**Venue:** Microsoft Teams Meeting

<b>Attendees:</b>		<b>Apologies:</b>
Chris White (Chair - CW)	Darlington Building Society	
Paul Booth (PB)	STDC Board Member	
Cllr Peter Berry (TVCA Representative)	Redcar & Cleveland Borough Council	
Julie Gilhespie (JG)	STDC	
John McNicholas (JM)	STDC	
Gary MacDonald (GM)	STDC	
Mike Russell (MR)	STDC	
Neil Burgess (NB)	STDC	
Gareth Roberts (GR)	Mazars	
Phillip Church (PC)	RSM	
Rob Barnett (RB)	RSM	
Nicola Dean (Secretariat)	TVCA	
Sally Henry (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	<b>Welcome and introductions</b>	The Chair welcomed everyone to the Meeting.		
2.	<b>Apologies for Absence</b>	No apologies were given and the Meeting was noted as being quorate.		
3.	<b>Declarations of Conflict of Interest</b>	There were no declarations of interest		
4.	<b>Minutes of previous meeting</b>	The minutes of the meeting held on 28 <sup>th</sup> May 2020 were agreed as a true record.		
5.	<b>Chief Executives Update</b>	<b>A resolution to exclude the press and public under paragraph 3 of schedule 12A of the Local Government Act 1972 was agreed.</b>		
6.	<b>Draft Accounts &amp; Annual Governance Statement</b>	<p>The Committee were presented with the latest draft Accounts and Annual Governance Statement.</p> <p>Performance was deemed to be at the level expected, and as had been reported throughout the year to Board.</p> <p>When the Due Diligence Report is received and reviewed it will be shared with ARC.</p> <p>The impact of COVID was discussed, in that it hadn't changed the Development Corporation's aims and objectives, and it was suggested it would be good to make that clear in the Report.</p>	<b>Consideration to be given to wording in</b>	<b>TVCA</b>

		<b>RESOLVED</b> the Report was noted.	<b>respect of impact of COVID 19</b>	
7.	<b>Internal Audit Plan 2020/21</b>	<p>The Committee were updated on the Audit Plan for 20/21 which was circulated in advance of the Meeting.</p> <p>GM added that Management Team were engaged with and considered transition, collecting all Due Diligence. It was advised the Audit Plan has the flexibility to check everything working as intended, and if further assurance on other areas is required, particularly transition, that can be picked up.</p> <p>It was asked where the assurance comes from for financial systems since outsourced. Site company have their own IT, so need to learn from Group best practice for integrated systems, post transition. Consider how the assurance comes from SBC, through TVCA and into DC. Need to give assurance to the Committee.</p> <p><b>RESOLVED</b> the Plan was noted.</p>	<b>Evidence assurance on the outsourcing of financial systems</b>	<b>TVCA</b>
8.	<b>Update on Internal Audit Actions</b>	<p>Report circulated in advance of the Meeting on progress made against actions.</p> <p>Concern was raised that the number of actions ‘in progress’ is high and those ‘completed’ appeared low and there is a need to move the actions on. Consideration was given to articulation of targets for completion. It was advised the majority are expected to be complete by end of October 2020, but some dovetail into other programmes. Overdue items depends on the risk level, prioritising those. Some lower risk actions we need to review timescales for, in order to prioritise the medium to high risk areas. Low priority actions are often overdue due to focusing on high priority ones. It was suggested an Appendix for any overdue actions to indicate reasons why they are as such, would be useful for the Committee. Can give level of assurance before next meeting, but it was agreed to give a progress update on actions at end of August rather than waiting until the next Meeting.</p>	<p><b>Provision of an update on progress of actions between Meetings</b></p> <p><b>Report detailing progress and closure of actions</b></p>	<p><b>TVCA</b></p> <p><b>TVCA</b></p>



		<b>RESOLVED</b> the Report was noted.		
9.	<b>External Audit – Audit Progress Report</b>	An Audit Progress Report was circulated in advance of the Meeting. <b>RESOLVED</b> the Report was noted.		
10.	<b>Risk Update</b>	<b>A resolution to exclude the press and public under paragraph 3 of schedule 12A of the Local Government Act 1972 was agreed.</b>		
11.	<b>Forward Programme &amp; Action Register</b>	A piece of work is to be undertaken considering whether the Forward Programme covers what is needed from a Terms of Reference perspective, and whether there is enough commercial detail . A sub-group was agreed to be set up in advance of the next Meeting, to bring to Committee recommendations for the Forward Plan for the period ahead. CW volunteered to be part of that group.  The first 3 actions of the Action Tracker were noted as complete and the final item noted as ongoing regarding the Tata retention -to be followed up at the next meeting.  <b>RESOLVED</b> - The Committee agreed the updated Forward Programme.	<b>Sub Group to be formed and meet in advance of next Meeting to consider Forward Programme</b>	<b>TVCA</b>
12.	<b>AOB</b>	The Committee were updated on ARC membership with Jane Turner and John Baker being put forward as new Members – to be ratified this afternoon at Board.		
13.	<b>Date and Time of Next Meeting</b>	Date of next Meeting – 21 <sup>st</sup> October 2020 at 9am.		

## AGENDA ITEM 5

### REPORT TO THE STDC AUDIT & RISK COMMITTEE

21<sup>ST</sup> OCTOBER 2020

### REPORT OF THE GROUP CHIEF EXECUTIVE

#### SUMMARY

The purpose of this paper is to provide an update to STDC Board on the key activity within STDC since the last meeting.

#### RECOMMENDATIONS

It is recommended that the Board notes the content of this update report

#### BUSINESS CASE

1. Following the update provided In June, STDC's Business Case to secure £71m of Government funding towards demolition and site remediation continued to progress as anticipated.
2. Since June the Business Case has passed a further review by BEIS Commercial leads at the beginning of June and recommendations have been reflected in the final business case document that was issued on 1 July and was presented to a Joint BEIS and MHCLG project investment committee on 15 July. Whilst we still await formal confirmation of the decision, we are very confident of a positive outcome.
3. The Business case will now pass to Treasury for final review. Once this is achieved, STDC will, subject to Board approval, be able to purchase the shares of STSC and transition to local ownership.

#### COMMERCIAL

4. The launch of the new Teesworks brand has generated a lot of interest and enquiries. These have been logged and initial discussions have taken place however until we target market the site the majority of these enquiries will not match the aims of the masterplan.
5. Significant focus continues on NZT, Hydrogen rail, EfW and Offshore Wind.
  - STDC have reviewed the second DCO consultation for NZT and working through the process to ensure that the redline boundary for this project works with our wider site aspirations;
  - The Local Authorities' waste project is actively in procurement with Dorman Point as a mandated site;

- The estimates for the development of the Hydrogen rail facility have been generated by Turner & Townsend and these are to be provided to Northern rail; and
  - Discussions continue in respect of the development of a blade facility.
6. Preparation work has continued to make best use and maximise the value of existing infrastructure.
- **Electrical Infrastructure JV Procurement Process** - Responses to the Selection Questionnaire were received at the end of August. Structured evaluation from technical, financial and social values perspective resulted in four companies being selected for the competitive dialogue stage. The four selected companies have been notified and the Invitation to Participate in Dialogue and the associated transaction documents have been issued in line with the project timetable. Tender returns are expected in early November and a further update on the preferred bidder is likely at the November board meeting, with contract execution likely at end January 2021.
  - **Bravo 10 Pipebridge** - The draft pre-feasibility assessment undertaken by Nortech Solutions Limited has been completed and has shown that the preferred cost effective solution would either be a box culvert or a significantly larger pipe bridge. The pre-feasibility report also provided estimated project costs of between £7.5m to £8.5m, which is reflected in the latest budget forecast. A decision as to whether to proceed with this scheme will be made by Mar 2021 to procure long lead equipment for implementation in Q2 2022.

## PROGRAMME DEVELOPMENT

7. Work on the Dormant Point zone is progressing as follows:
- **Eston Road Highway Access Scheme (new roundabout)**
    - Detailed scheme design ongoing.
    - Planning permission granted.
    - Construction commencement scheduled for Oct-20.
    - Construction completion is scheduled for May-21.
  - **Site Preparation Works – Phase 1 (40 acres – western end of site)**
    - Scheme design complete.
    - Planning permission is anticipated by Sep-20.
    - Advance works continuing.
    - Main works construction is scheduled for Sep-20.
    - Construction completion is scheduled for Mar-21.
  - **Site Preparation Works – Phases 2 & 3 (80 acres – remainder of STDC owned land area)**
    - Scheme design ongoing.
    - Tendering for contractor for Phase 2 (40 acres) is complete.
    - Construction commencement is scheduled for Oct-20.
    - Construction completion is expected by Apr-20.
    - Tender for Phase 3 (40 acres) will be issued in Oct-20.
8. Metals Recovery Area (50-acre site) work is as follows:

- Advance earthworks and site clearance continuing.
- Phase 1 ground investigation complete.
- Planning permission for main works due no later than Nov-20, however, we expect to better this date by four weeks.
- Main works construction is scheduled to commence Dec-20 and complete by Apr-21.

## 9. South Bank Area and South Bank Wharf is as follows:

- Surveys and investigations to inform the marine-related consents applications.
- The Environmental Impact Assessment (EIA) work to support the planning application.
- The feasibility study and concept design for the new quay.
- The planning application submission is scheduled for submission Nov-20.
- The marine works (new quay and river dredging) are scheduled to commence Aug-21 and complete in Dec-22.
- Procurement for Design & Build contractor will commence over the coming months.
- The outline planning application for 4.5M sq. ft of industrial building space was submitted Jul-20, on programme.
- The first phase of the landside site preparation works (Phase 1), to around 100 acres of land, is scheduled to commence Jan-21. However, advance works to this area, including building demolitions, are continuing.
- The ground investigation to the Phase 1 area is complete
- A detailed planning application for site preparation will be submitted over the coming months.

## 10. Demolition Works

- Package 1 – Various Buildings, Dorman Point
  - Demolition works on the Prairie Site will commence in late Nov-20, once the STSC Coke Ovens Gas Main decontamination works in the locale are complete.
- Package 2 – Heavy Fuel Oil (HFO) Tank Farm and Buildings at South Bank
  - The decontamination and demolition contract commenced Sep-21, and good progress is being made.
  - The project will be complete by Dec-20, two months ahead of programme.
- Package 3 – Various SSI Assets, Advance Demolitions
  - Key demolitions within this package include certain facilities on the proposed NZT site, coal handling facilities at Redcar, and the gas holder structure at South Bank Coke Ovens.
  - Tenders will be issued late September.
  - Initial demolition activities are expected to commence in late November, with overall completion by the middle of 2021, dependent on the timing for the SBCO Gas Holder demolition.
- Package 4 – Demolition Framework
  - Procurement of the Demolition Contractors' Framework is ongoing.
  - The Framework will address the majority of the demolition projects across the site, including all of the large-scale, complex facilities, such as: Redcar Blast Furnace; Redcar Coke Ovens; the Sinter Plant; Lackenby Steelmaking Complex; and South Bank Coke Ovens.
  - The overall programme duration is estimated at 5 years.

## 11. Hydrogen Rail Project

# TEESWORKS

- STDC is in continuing consultation with Northern Trains Ltd (NTL) on the delivery of this project.
- NTL awaits final sign off from DfT regarding the proposal to run hydrogen trains on the network by 2024.
- NTL desires a turnkey-type delivery of their proposed rail and building facilities by STDC.

## 12. Materials Handling – Sirius Tunnel Material

- Agreement has now been reached with Sirius/Anglo American on the revised terms of the Material Supply Agreement.
- Investigations and analysis continue on the use of the mudstone material in addressing the remediation of the SLEMS.

## 13. Ground Investigations

- In the period since the last Board meeting, the following ground investigations have been undertaken
- South Bank Phase 1 (100 acres)
- The SLEMS Phase 1 (shallow soils investigation)
- The Warrenby landfill facility.
- The ground investigation on the Teardrop Site/Long Acres area is now underway and will complete in early October.
- The following ground investigations (GIs) are planned over the coming two months:
- Metals Recovery Area Phase 2 GI (deep soils investigation)
- SLEMS Phase 2 GI (deep soils investigation)
- The GI for the proposed 1.05km new quay wall at South Bank
- Redcar Gate Entrance Improvement Works GI.

## 14. Redcar Gate Entrance Improvements

- A firm has been appointed as Design & Build contractor for the delivery of the new gatehouse building and related improvement works at Redcar Gate, which include: new lighting and signage; improved hard and soft landscaping; and expanded visitor car parking facilities.
- The design phase is nearing completion, and work packages are being scoped and costed.
- The planning application for the scheme has been submitted.
- The Redcar Gate will close between Sep-20 and Jan-21 to enable completion of construction by Dec-20 and commissioning in early Jan-21.

## CPO

The SSI land will vest on 8 October. The second GVD has been issued and is in process.

## FINANCE AND RESOURCE

15. A financial performance and medium term plan was presented to the Board in September and is included as an appendix to this report (**Appendix 1**).

## **FINANCIAL IMPLICATIONS**

16. The financial implications of programme activity are captured in the STDC Delivery Group meetings throughout the year. The Group received regular financial updates linked to programme milestones and a procurement pipeline has been produced to integrate with the programme plan. This will ensure spending profiles are monitored and key critical expenditure path items are identified.

## **LEGAL IMPLICATIONS**

17. Whilst matters with legal implications are discussed in this report, this update report has no specific legal implications

## **RISK ASSESSMENT**

18. Specific identified areas of risk are highlighted following each section of the detailed report. These risks will be discussed at the next STDC SMT meeting to ensure additions/ updates are made to the appropriate risk registers.

## **CONSULTATION & COMMUNICATION**

19. This paper has been prepared directly from separate reports prepared by the Senior Management team of STDC. As the purpose of this report is to provide updates/ information no further consultation has been undertaken/ is necessary.

## **EQUALITY & DIVERSITY**

20. No specific impacts on groups of people with protected characteristics have been identified

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## REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

### FINANCE AND MEDIUM-TERM PLAN UPDATE

#### SUMMARY

The purpose of this paper is to provide a finance update to the Board and to review the STDC Group budget for 2020/21 and medium-term plan for the three-year period to 31 March 2023. The review is undertaken considering developments in the delivery programme and land acquisition activities since the original budget and MTFP were prepared.

In particular, the original budget report was approved subject to completion of the SSI land deal and enactment of arrangements with delivery partners. Whilst delivery partner arrangements have been enacted, the SSI land deal that was envisaged at that time was subsequently amended to encompass acquisition of an increased land area for a revised consideration. Accordingly, this paper reflects the revised arrangements.

The STDC Group comprises South Tees Development Corporation and its wholly owned subsidiary company South Tees Developments Limited ("STDL"), which holds and manages the former TATA land assets. The activity and funding of South Tees Site Company are not within the scope of this report. Appropriate analysis and updates will be provided in this regard post-transition.

#### RECOMMENDATIONS

It is recommended that the STDC Board:

- i. Notes the finance update provided in this report
- ii. Approves an increase in the budget for the year to 31 March 2021 from £40.7m to £60.4m to align with the revised forecast for the year reflecting accelerated delivery activity on the site
- iii. Endorses the updated medium-term plan for the three years to 31 March 2023, subject to any activities requiring external finance being fully funded prior to commitment.
- iv. Delegates authority to the Chief Executive and Director of Finance of STDC to allow virement of budgets between projects within the funding envelope identified to accommodate changing operational priorities and potential future investor demand.

## FINANCIAL PERFORMANCE UPDATE -JULY 2020

1. In the four-month period to July 2020 STDC Group has spent £18.9m against an overall annual budget of £40.7m:

	Year to	Year to	Year to	Year to
	Date	Date	Date	Mar-21
	Actual	Budget	Var	Budget
Expenditure overview	£'000	£'000	£'000	£'000
Core operations and running costs	596	552	(44)	2,102
STDL site management costs	393	410	17	1,296
Enabling expenditure and projects	929	4,040	3,111	9,161
Capital works projects	1,953	3,123	1,171	13,672
Land purchase costs	15,000	10,000	(5,000)	11,000
<b>Net Expenditure</b>	<b>18,871</b>	<b>18,126</b>	<b>(745)</b>	<b>37,231</b>
HV Capital expenditure (end user funded)			-	3,448
<b>Gross expenditure</b>	<b>18,871</b>	<b>18,126</b>	<b>(745)</b>	<b>40,679</b>

2. Operating expenditure and site management costs have remained in line with budgeted levels. Project works were tracking c£4.3m behind the phased budget target, however delivery activity is accelerating substantially, and it is expected that this variance will reverse in coming months. Detailed project plans have been produced and significant progress has been made in delivery and procurement activity and further detail is covered within the CEO update paper.
3. Land purchase costs are within the original business case financial model estimated values. The values to July are £5m more than the level budgeted for the year as a result of the amended land acquisition strategy.
4. Specific variances are explained as follows:
  - **Enabling expenditure and projects** - Are underspent v's the phased budget by £3.1m. This relates principally to professional fees linked to development of the offshore wind proposition and site wide multi-disciplinary studies. Operational staff have confirmed that delivery is in line with expectations and works/services are in the process of being reviewed and receipted. This will accelerate to align with the budget in the coming months.
  - **Capital works projects** - - Management updates confirm that the £1.2m underspend v's profile relate either to budget phasing differences that will reverse later in the year or planned changes to programme priorities.
  - **Land purchase costs** – Include agreed compensation paid to land-owners displaced in the first General Vesting Declaration which will be enacted in October and other negotiated settlements. A second GVD is imminent and will lead to further costs which are considered in the budget analysis below. The overall increase in cost for



the year is driven by the revised land acquisition arrangements noted in the summary above.

(Note performance is compared to the original budget of £40.7m for the year and not the updated proposal presented later in this report)

#### UPDATE TO BUDGET FOR THE YEAR ENDED 31 MARCH 2021

5. Since the original budget was prepared in May 2020 the operational programme has been developed in line with commercial priorities. This has resulted in an acceleration of activity alongside the revised land acquisition costs previously noted.
6. A revised current-year forecast, which shows an increase in planned expenditure of £19.7m for the year is presented alongside the original budget below:

	Year	Year	Year
	Mar-21	Mar-21	Mar-21
	Budget	Forecast	Var
<b>Budget expenditure overview</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operations and running costs	2,102	2,713	611
STDL site management costs	1,296	1,153	(143)
Enabling expenditure and projects	4,170	6,234	2,064
Capital projects	22,111	32,350	10,239
Land purchase costs	11,000	17,970	6,970
<b>Budget expenditure</b>	<b>40,679</b>	<b>60,420</b>	<b>19,741</b>
<b>Funded by:</b>			
MHCLG operations funding	1,849	207	(1,642)
MHCLG Prairie Grant	5,764	10,017	4,253
TVCA ringfenced funding	244	253	9
TVCA site operations funding	1,297	7,874	6,577
TVCA other funding	20,705	30,286	9,581
<b>New Ask BEIS</b>	<b>2,308</b>	<b>2,308</b>	<b>-</b>
<b>New Ask MHCLG</b>	<b>5,063</b>	<b>4,435</b>	<b>(628)</b>
<b>End user contributions/ advance rentals</b>	<b>3,449</b>	<b>940</b>	<b>(2,509)</b>
<b>MHCLG Site entrance funding</b>	<b>-</b>	<b>4,100</b>	<b>4,100</b>
<b>External borrowing/funding</b>			<b>-</b>
	<b>40,679</b>	<b>60,420</b>	<b>19,741</b>

7. **Funding considerations** - The revised forecast remains funded within the envelope of existing funding, and the additional funding secured via STDC's business case. No borrowing is required. New funding streams secured in the year are shown in red text.
8. **Overhead costs** – comprising Operations and Running costs and STDL Site Management costs are forecast to increase by a combined £0.4m compared to the

original budget plan. This increase is principally a result of planned additional resourcing of key senior programme and operational management roles to support accelerated programme delivery in the second half of the year (as the former SSI land assets are acquired).

9. The new roles include senior resource in operations programme management, risk, and technical planning support. Where appropriate resource will be accessed through contractors to allow capacity to be flexed alongside activity.
10. **Enabling expenditure and projects** – The £2m planned increase in the year is principally because of a £1.8m advance commitment to developing the demolition strategy across the site. These costs reflect procurement of a site wide demolition framework and professional fees for development of demolition and tender specifications for all key assets across the site. The previous assumption was that demolitions would be specified and tendered individually across the life of the programme.
11. The remaining £0.3m of the cost increase comes as a result of the need to relocate office staff from TMO as a result of the NZT programme and provide modular facilities to hold displaced staff and accommodate potential investors coming to site.

### Capital projects

12. Proposed revisions to the programme of capital projects for the year accelerate expenditure by £10.2m compared to the original budget, this should in turn accelerate commercialisation of the site:

	Year	Year	Year
	Mar-21	Mar-21	Mar-21
	Budget	Forecast	Var
Capital projects	£'000	£'000	£'000
Prairie (Dorman point)	5,495	10,017	4,522
South Bank (Enabling of offshore wind development)	9,515	12,212	2,697
HV Electrical infrastructure	3,425	2,083	(1,342)
Steel House	1,650	900	(750)
Redcar (Including NZT)	720	1,033	313
Teardrop (Longacres)	-	985	985
Gatehouse/entrances	-	4,100	4,100
Other	1,306	1,021	(285)
	<b>22,111</b>	<b>32,350</b>	<b>10,239</b>

13. Planned expenditure is accelerated in the following areas:

- **Prairie (Dorman Point)** – Planned delivery of £10m for the year is accommodated within the ring- fenced envelope allocated by MHCLG for the site
- **South Bank works-** are accelerated to prepare the site in advance of planned development of a further business case to fund a new Quay on the site to facilitate offshore wind operations and manufacturing. The year on year expenditure increase of £2.7m is principally because of accelerated demolition activity.

- **Redcar** – the year on year increase is driven by additional advance demolition activity in the Foundry area.
- **Teardrop (Longacres)** – Site preparation work on this site will commence in the current year, this has been brought forward in the programme.
- **Gatehouses/ entrances** – STDC was recently granted an additional £4.1m of MHCLG funding to improve the quality and look of site access. The first scheme in to utilise this funding is a planned upgrade to the Redcar gatehouse which is likely to be complete by the end of the calendar year

14. Other project areas where cost reductions are planned in the year principally reflect proposed reprioritisation of the activity into later years

15. **Land purchase costs** – reflect known and anticipated costs of CPO compensation payments and agreed settlements to displaced landowners because of STDC enacting its compulsory purchase order. The costs shown are within the original business case financial model estimated values. The values to forecast for the year are as a result of the amended land acquisition strategy. . A further provision for the acquisition of remaining land parcels is made in the refreshed medium-term financial plan (discussed below).

## MEDIUM TERM PLAN REFRESH – THREE YEARS ENDED 31 MARCH 2023

16. Alongside the budget review processes the medium-term plan for the three years to March 2023 has been revised to capture all proposed and pipeline activity which is currently being planned into the operational programme

Including this activity increases overall net expenditure over the period by £68m from £140m to £208m. The revised profile (reflecting the proposed budget changes discussed above) is presented below:

	Year	Year	Year	2020-
	Mar-21	Mar-22	Mar-23	2023
	Forecast	Plan	Plan	Plan
<b>Budget expenditure overview</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operations and running costs	2,713	4,731	5,846	13,290
STDL site management costs	1,153	1,127	1,161	3,441
Enabling expenditure and projects	6,234	3,000	3,000	12,234
Capital projects	32,350	65,495	56,384	154,229
Land purchase costs	17,970	7,030	-	25,000
<b>Budget expenditure</b>	<b>60,420</b>	<b>81,383</b>	<b>66,391</b>	<b>208,194</b>
<b>Funded by:</b>				
MHCLG operations funding	207	-	-	207
MHCLG Prairie Grant	10,017	1,340	-	11,357
TVCA ringfenced funding	253	-	-	253
TVCA site operations funding	7,874	2,226	-	10,100
TVCA other funding	30,286	3,000	-	33,286
<b>New Ask BEIS</b>	<b>2,308</b>	<b>2,576</b>	<b>8,809</b>	<b>13,694</b>
<b>New Ask MHCLG</b>	<b>4,435</b>	<b>35,475</b>	<b>-</b>	<b>39,910</b>
<b>End user contributions/ advance rentals</b>	<b>940</b>	<b>13,734</b>	<b>15,291</b>	<b>29,965</b>
<b>MHCLG Site entrance funding</b>	<b>4,100</b>	<b>-</b>	<b>-</b>	<b>4,100</b>
<b>External borrowing/funding</b>		<b>23,031</b>	<b>42,290</b>	<b>65,321</b>
	<b>60,420</b>	<b>81,383</b>	<b>66,391</b>	<b>208,194</b>

**Note:** the revised MTFP excludes plans to construct a new Quay at South bank which will be progressed as a separate business/funding case.

17. **Funding considerations** - The increase in activity leads to a broadly corresponding financing requirement of £65m as existing and new government funding is exhausted during the year ended March 2022. Accordingly, the activity reflected reflects a “maximum activity” case and endorsement of the plan is sought subject to all activity, particularly that requiring external finance, being fully funded before any commitments are made. Finance secured may take the form of borrowings or through early realisation of value inherent in commercial arrangements with tenants (such as income strip arrangements). Finance costs of £1.7m have been prudently included in overheads to reflect a scenario where all external funding is borrowed.

18. **Operations and running costs:** - are expected to increase by £2m in the year to March 2022 and a further £1.1m in the year to March 2023. These increases reflect £1.7m of finance costs (see paragraph 16 above). The remainder of the increase arises due to the full year cost impact of new staff hires in the second half of the current year, alongside a £1m annual cost allowance for an outsourced Project Management Office to complement in-house project management resource and support overall project and programme delivery.

19. **STDL Site management costs** – Are assumed to stay broadly consistent with current levels throughout the plan period. Whilst STDL will acquire the former SSI site and other land assets following CPO, no additional management cost is assumed, as this activity is covered by the activities of STSC which is separately funded and excluded from this medium-term financial plan until transition takes place.

20. **Enabling expenditure and projects** – reduce to £3m per annum from the year to March 2022, reflecting up-front costs planned in the current year for the benefit of the future programme that will not recur moving forward. These include development of the site-wide procurement framework and specifications (£1.8m) and site wide studies (£1.3m). The £3m annual allowance retained in years two and three of the plan is allocated to cover future external consultancy and professional support required, such as legal fees, further site studies, ground investigations, planning requirements, permits and consents etc.

### Capital projects

21. The revised MTFP assumes an additional £41m of accelerated capital project delivery:

	Original	Updated	
	MTFP	MTFP	MTFP
	2020-23	2020-23	Var
Capital projects	£'000	£'000	£'000
Prairie (Dorman point)	18,493	23,057	4,564
South Bank (Enabling of offshore wind development)	8,554	29,575	21,021
HV Electrical infrastructure	36,045	37,981	1,936
Steel House	2,019	1,650	(369)
Redcar (Including NZT)	16,391	17,177	786
Teardrop (Longacres)	-	16,785	16,785
Gatehouse/entrances	-	4,100	4,100
Infrastructure Corridor	5,645	5,645	0
COGM/HOFM Demolition	2,732	2,730	(2)
LFZ (High Tip) remediation	7,920	7,920	-
Redcar Coke Ovens demolition	5,900	5,900	-
Other	9,481	1,709	(7,772)
	<b>113,179</b>	<b>154,229</b>	<b>41,050</b>

22. Key areas where cost is planned to increase are:

- **Prairie (Dorman Point)** – Costs have increased by £4.5m compared to the original plan. This is a planned increase (not due to accelerated phasing) and is considered necessary to achieve full area remediation to provide a fully prepared development platform to accelerate commercial interest (rather than reacting to demand and undertaking tailored remediation which was the initial assumption).
- **South Bank** – Site preparation and demolition costs have been brought forward into the MTFP period from 2023/4 and 2024/5 to continue preparations for the potential South Bank Quay development. The specific costs of the quay and associated funding are being considered as part of a separate business case and will only be included in the MTFP once approved by Board.
- **Teardrop** – Costs are accelerated from beyond the 3-year CSR period to allow more rapid commercialisation
- **Gatehouse/ entrances** – Have been added to the latest version of the plan as a new element. Cost are directly funded by a new MHCLG grant

23. C £7.8m of “other” previously unspecified activity that was included in the plan has been reallocated to partly offset the above specific project cost increases. This reflects the original intention to refine cost estimates further during 2020/21 whilst securing the successful approval by Government of the business case.

#### End user contributions/advance rentals

24. Revised planning assumptions show a £3.4m reduction in advance rental income due to slippage in a major investor’s programme of works:

	<b>Original</b>	<b>Updated</b>	
	<b>MTFP</b>	<b>MTFP</b>	<b>MTFP</b>
	<b>2020-23</b>	<b>2020-23</b>	<b>Var</b>
<b>End User contributions/ advance rentals</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Advance rentals	5718	2,280	(3,438)
HV works - Capital Contributions	25929	27,685	1,756
	<b>31,647</b>	<b>29,965</b>	<b>(1,682)</b>

25. Increased HV works capital contributions reflect an increase in anticipated connection activity. This income is matched to cost with no margin assumed to STDC. Ultimately it is anticipated that HV electrical works will be delivered and funded by a future joint venture partner. This arrangement is currently in procurement.

#### FINANCIAL IMPLICATIONS

26. Financial implications are discussed in the body of this report.

## **LEGAL IMPLICATIONS**

27. There are no legal implications associated with the recommendations of this report.

## **RISK ASSESSMENT**

28. The key risks associated with the delivery of the revised plan is failure to deliver in line with programme / a material shift (forward or backward) in programme delivery phasing. Should key planning assumptions fail to materialise. STDC would consider any changes necessary to the delivery programme and forecast forward accordingly

29. By developing a “maximum case” which requires external funding there is a risk that delivery may fall behind planned levels, particularly if commercial activity does not allow timely securitisation of income. However, in this circumstance some planned activity can be deferred whilst ensuring STDC achieves targets set in relation to its government and external income funding streams.

## **CONSULTATION & COMMUNICATION**

30. Plans have been developed in consultation with the senior management team of STDC who have provided detailed input based on the developing programme of delivery activity.

## **EQUALITY & DIVERSITY**

31. No specific impacts on groups of people with protected characteristics have been identified

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# SOUTH TEES DEVELOPMENT CORPORATION

## Internal Audit Progress Report

**21 October 2020**

This report is solely for the use of the persons to whom it is addressed.  
To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.







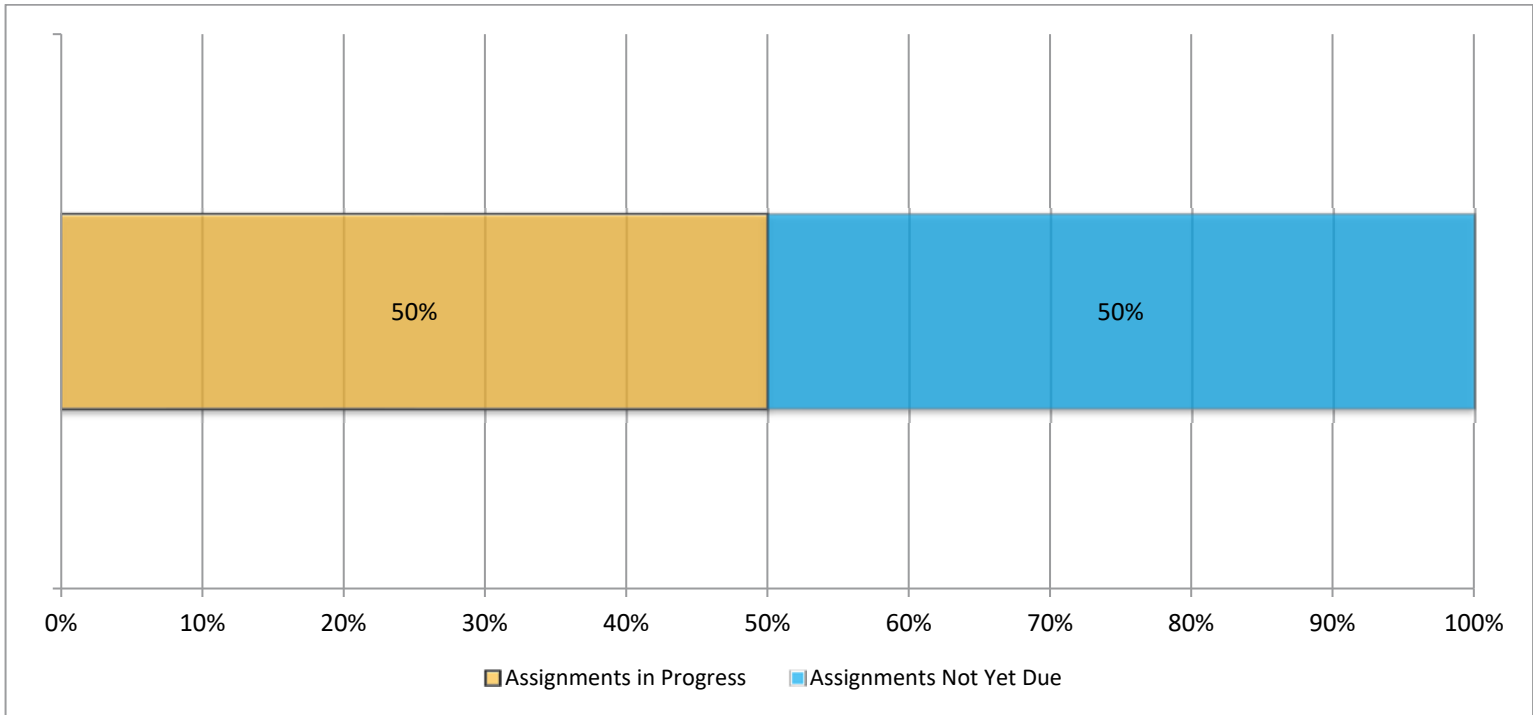
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# 1 Introduction

The internal audit plan for 2020/21 was approved by the Audit and Risk Committee on 29 July 2020.

The graphic below provides a summary update on progress against the 2020/21 plan.



## Appendix A – Progress against the internal audit plan 2020/21

The current Covid-19 situation means that our clients and internal audit are working differently. We understand and recognise the organisation's strategic / primary objectives, and that the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile. We will work closely with management to deliver an internal audit programme which remains flexible and agile to ensure it meets your needs in the current circumstances.

Assignment	Status	Target Audit and Risk Committee
Key Financial Controls	<b>Planning document approved</b> Fieldwork scheduled for week commencing 9 November 2020	December 2020
Follow Up of Previous Internal Audit Management Actions	<b>Planning document issued</b> Fieldwork scheduled for week commencing 4 January 2021	February 2021
Project Assurance	Fieldwork scheduled for week commencing 11 January 2021	May 2021
Contingency	Fieldwork scheduled for week commencing 25 January 2021	May 2021



## For more information contact

**Rob Barnett**

Head of Internal Audit

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### **rsmuk.com**

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **South Tees Development Corporation**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

## AGENDA ITEM 8

### REPORT TO THE AUDIT AND RISK COMMITTEE

21<sup>st</sup> OCTOBER 2020

### REPORT OF HEAD OF FINANCE AND RESOURCES

## PROGRESS AGAINST INTERNAL AUDIT ACTIONS

### SUMMARY

The purpose of this report is to provide an update on progress against internal audit actions.

### RECOMMENDATIONS

It is recommended that the Audit and Risk Committee notes the content of this report.

### DETAIL

1. In total STDC had 35 open internal audit actions carried in at May 2020 of which 9 have since been marked complete by management. Of the remaining 26 actions 21 are in progress / partly complete

Outstanding actions	Report date	Action status			Total
		Completed	In progress	Not started	
Budget setting and control	Feb-20	2	2	-	4
Follow up of 2018/19 actions	May-20	2	5	5	12
Procurement	Jan-20	3	2	-	5
Project Management	Apr-20	2	12	-	14
<b>Total</b>		<b>9</b>	<b>21</b>	<b>5</b>	<b>35</b>
<i>High priority</i>		-	2	-	2
<i>Medium Priority</i>		3	6	4	13
<i>Low Priority</i>		6	13	1	20
<b>Total</b>		<b>9</b>	<b>21</b>	<b>5</b>	<b>35</b>

2. Two actions on the log are categorised as High priority and relate to an advisory Project Management review undertaken in May 2020. Both actions are being progressed and are expected to be completed in line with agreed timescales (See below).

3. Eight actions are showing as overdue on the log none of which are high priority. One low priority action has yet to be commenced (See below):<sup>i</sup>

Overdue actions	Report date	Action status		Total
		In progress	Not started	
Budget setting and control	Feb-20	2	-	2
Follow up of 2018/19 actions	May-20	2	1	3
Procurement	Jan-20	2	-	2
Project Management		1	-	1
<b>Total</b>		<b>7</b>	<b>1</b>	<b>8</b>
<i>High priority</i>		-	-	-
<i>Medium Priority</i>		2	1	3
<i>Low Priority</i>		5	-	5
<b>Total</b>		<b>7</b>	<b>1</b>	<b>8</b>

The fact that 26 of the 35 actions (74%) have yet to be completely implemented is reflective of the nature of some of the recommendations and the ongoing operational development of the STDC group rather than indicating a failure to address recommendations. Eight of the 26 recommendations outstanding are outside of initially agreed delivery deadlines but significant progress has been made against the majority of these.

Narrative on key developments and progress is given by report below:

**Budget setting and control** – Has two partially implemented and linked actions linked to formalisation of the budgeting cycle and implementation of a finance system to enhance reporting. Significant progress has been made with regard to both actions, including a completion of a full medium-term plan and budget refresh which was approved by Board in September and a partial systems implementation which is expected to be fully operational in the next month. These items will be marked as final once they full systemisation can take place with completion of systems implementation

**Follow up of 2018/19 Actions** – This report included 12 actions (34% of all outstanding recommendations) of which have 10 yet to be completed. Eight of these actions are linked to development of STDC's risk management processes and registers

Whilst most of these risk related actions are yet to be marked as fully complete significant progress has been made in relation to resourcing and development of risk management since the last report to ARC. Including the formal creation of a Group Risk Manager Role and creation of two new risk analyst roles which will be recruited to provide additional support to the group.

Aligned to this appointment a workshop was held in September, attended by STDC's Delivery Group which considered strategic alignment of group risk appetite (in light of the transition of STSC) alongside operational aspects of risk management such as risk classification and reporting

It is therefore anticipated that the outstanding recommendations will be resolved in the coming weeks. Completion may be slightly behind the initial agreed deadline of 30 October 2020, but the delay is necessary to accommodate the increasing complexity of the group following STSC transition. A risk integration update is provided as part of a separate risk management report.

The single issue marked as not progressed relates to the drafting of specific procurement policies and procedures. This action is linked to the development and filter down of a group procurement strategy which has recently been developed. Completion of the action in STDC

has been hampered in recent weeks due to an instance of long-term sickness in the procurement team.

**Project Management** – Fourteen of the 35 recommendations outstanding (40%) relate to this report which was completed for advisory purposes in April 2020. Most of the recommendations had a long lead time reflecting the stage of STDC's delivery in April and the need to deliver a complex Project Management Office ("PMO") solution for implementation by 31 January 2021.

Progress has been made to this end with a consultant appointed to develop the architecture and design of the PMO tools/systems/processes, including the provision of the integration software that will connect everything together. They are presently working on developing some of the basic building blocks (project execution planning, basic project performance controls, etc).

This work will continue, with a view to being in a position for initial roll-out of the PMO by the end of January, and then full launch end-March 2021. In parallel resourcing of the PMO support services themselves will be procured.

One overdue action is shown from the Project Management report linked to documentation of roles and responsibilities around individual projects delivered through the PMO. This work will be completed alongside the wider project and management has suggested that a more appropriate target date for this is 31 January 2021 aligned with the roll out of the overall solution.

## **FINANCIAL IMPLICATIONS**

4. This report has no direct financial implications.

## **LEGAL IMPLICATIONS**

5. This report has no direct legal implications

## **RISK ASSESSMENT**

6. Monitoring of internal audit actions is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **CONSULTATION & COMMUNICATION**

7. The internal audit log has been circulated amongst relevant action holders and feedback captured

## **EQUALITY & DIVERSITY**

8. No specific impacts on groups of people with protected characteristics have been identified

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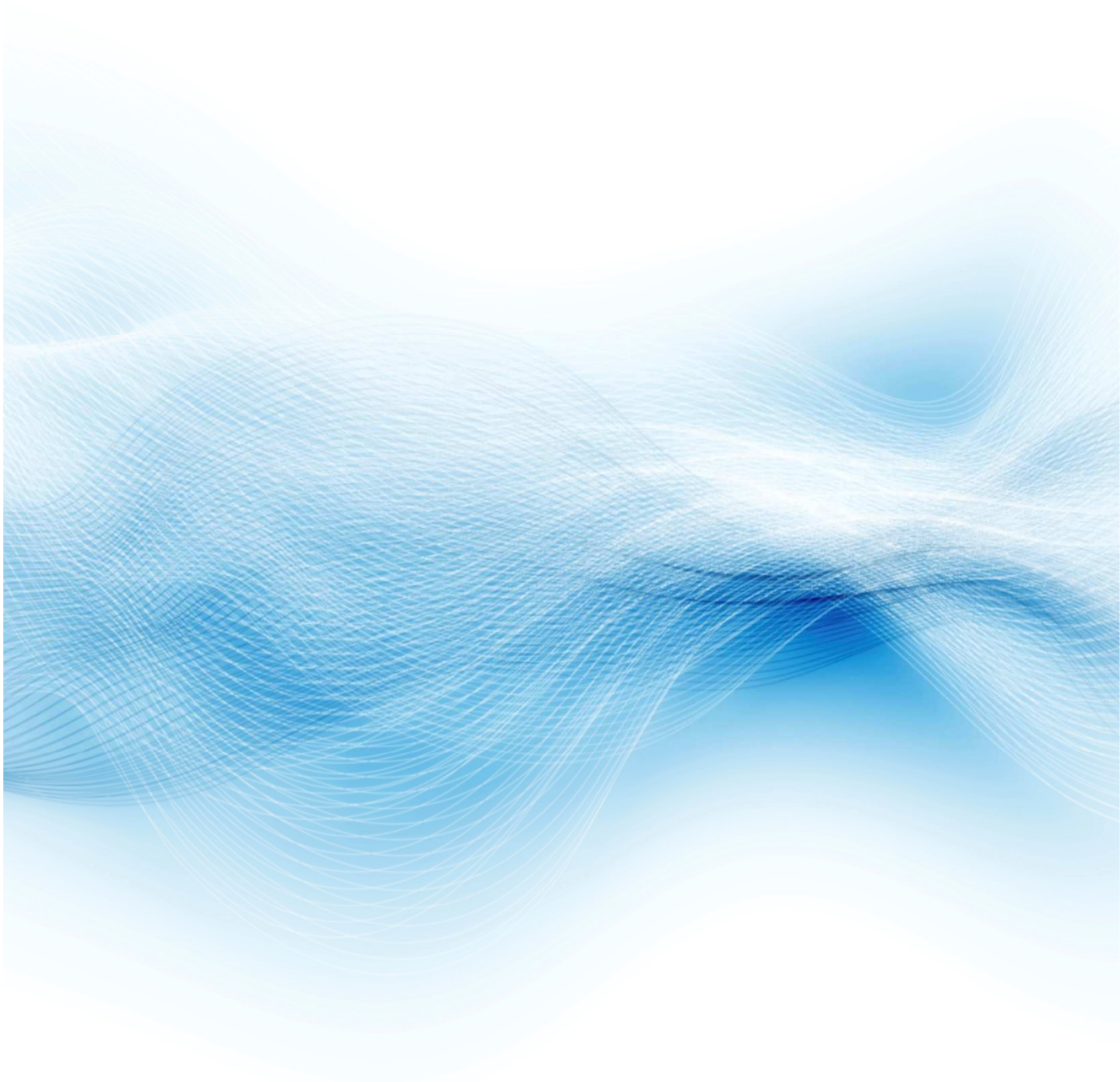
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# Audit Completion Report

South Tees Development Corporation (and Group)  
Year ended 31 March 2020





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1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

Our reports are prepared in the context of the ‘Statement of Responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Corporation are prepared for the sole use of the Corporation and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Audit and Risk Committee  
South Tees Development Corporation  
Teesside Management Offices  
Redcar  
TS10 5QW

9 October 2020

Dear Members

**Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented in March 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Corporation was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully



Cameron Waddell (Key Audit Partner)  
Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of South Tees Development Corporation (the Corporation) and South Tees Development Corporation Group (the Group) for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Risk Committee meeting on 23 October 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Corporation's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (Corporation and Group).
- Property, plant and equipment valuation (Group).
- Defined benefit liability valuation (Corporation and Group).

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Corporation had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

The Corporation does not have to complete a WGA return for 2019/20 as its financial statements are consolidated into Tees Valley Combined Authority Group, which does. As such, we have not reviewed a return for the Corporation or Group for 2019/20.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Corporation and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money conclusion

Appendices

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Expenditure, Cut off testing and Creditors	●	In each of these areas, we are awaiting information from management for our sample to support the entry in the financial statements to finalise our work. We are expecting material adjustments will be required to Expenditure and Creditors, but cannot yet determine the exact level of adjustments required.
EFA and segmental analysis	●	Our audit work is nearing completion in these areas; after receiving answers to queries from management.
Pensions	●	We have not yet received the information we require from the local government pension fund administering authority's auditor. As soon as it is received we will review it and consider the assurance and implications for our audit.
Commitments	●	We are awaiting information from management in respect of whether capital commitments need to be disclosed in the STDC/Group statements at 31 March 2020. Once known we can consider the implications for our audit.
Tax	●	Management advised us in late July 2020 that it had received a Corporation tax return for the Corporation for completion. Management have been liaising with HMRC and have also been taking professional advice. We have been liaising with management to assess their progress in resolving the matter. It is management's view, based on their professional advice, that the Corporation is not subject to Corporation Tax. However, given HMRC have issued a request for completion of a tax return, this has raised a lack of clarity on the position, that can only be confirmed by HMRC itself. This may impact on management's ability to finalise the financial statements, and our ability to finalise our audit.
Our considerations of Fraud, Laws and regulations, Provisions and liabilities and Going concern	●	We cannot complete our work in these areas as we are awaiting responses to our enquiries to management and the Audit and Risk Committee Chair, which we issued in March 2020, and have chased numerous times.
Group consolidation audit work	●	Our audit approach for the audit of the Group, as set out in our Audit Strategy Memorandum, includes reliance on the component auditor for South Tees Developments Limited. We have liaised with the component auditor throughout the year, but as yet, we have not received a response to our Group Instructions issued in February 2020, and updated in May 2020.  We understand that we should receive them soon and that the audit is underway, but so far have not had confirmation that the auditor has been able to complete their audit, and as such cannot review their audit files for our assurance. We await confirmation from the component auditor when this will be possible.
Events after the Balance Sheet date	●	Management intend to update the note nearer sign off, to reflect the latest position in respect of Events after the Balance sheet date. We will therefore review it nearer sign off, and our review is ongoing up until the date of signing the auditor's report (the Opinion).
Financial Statements (post-audit)	●	Review and closure processes, including checking the amended version of the financial statements.

### Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements



# 1. EXECUTIVE SUMMARY (CONTINUED)

We will provide the Audit and Risk Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £93.8k for the Corporation using a benchmark of 2% of Gross Operating Expenditure, and £355.8k for the Group using a benchmark of 2% of Total assets. Our final assessment of materiality, based on the final financial statements and qualitative factors is £118.8k for the Corporation and £556.7k for the Group, using the same benchmarks. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Risk Committee, at £3.5k for the Corporation and £16.7k for the Group based on 3% of overall materiality.

## Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Corporation's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
South Tees Development Corporation (parent)	NAO Code audit	Mazars LLP	Full audit	None
South Tees Developments Limited (subsidiary)	Statutory audit	Tait Walker	Full audit	None

## Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Risk Committee in a follow-up letter.

## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Corporation's and Group's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

Management override of controls (Corporation and Group)

#### Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Subject to satisfactory completion of our outstanding work, our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention at this stage.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Property, Plant and Equipment Valuation (Group)	<p>The 2019/20 Group financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Group PPE.</p> <p>The Corporation engaged a valuation expert to provide information on valuations. There remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the revaluation of PPE to be an area of risk.</p>

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### How we addressed this risk

As the valuation of PPE was undertaken for Group reporting purposes we did not rely on the component auditor, and instead undertook our own audit work to consider the reasonableness of the chosen classification category of the PPE under the Cipfa Code, and gain assurance that the valuation was materially fairly stated.

We assessed the competence, skills and experience of the Corporation's appointed valuer, and used indices provided by our own expert to assess the movement from 2018/19 to 2019/20 to gain assurance it was not materially misstated.

We also considered the impact of COVID-19 on the valuation to gain additional assurance on its reasonableness.

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### Audit conclusion

The valuer followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a "material valuation uncertainty" in relation to the valuation of the land valued.

We have requested management add a reference to this in the financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements. Our draft Auditor's Report at Appendix B includes the draft emphasis of matter paragraph.

Our work has provided the assurance we sought and we have not identified any other matters to report in relation to property, plant and equipment valuations.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Defined benefit liability valuation (Corporation and Group)

### Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

### How our audit addressed this risk

We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. We also considered national pensions issues arising, further information is provided on page 9.

### Audit conclusion

Subject to our review of the response from the local government pension scheme auditor, when received, our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention at this stage. Our work identified no indication of material estimation error in respect of pensions.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Corporation's/Group's accounting practices

We have reviewed the Corporation's/Group's accounting policies and disclosures and, subject to the amendments in section 4, concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Corporation's/Group's circumstances.

Draft accounts were received from the Corporation on 10 August 2020. As last year, we identified quite a number of incorrect headings, internal consistency, grammatical or other typographical matters that we would have expected to be identified in the Corporation's own internal quality review prior to draft publication, as the majority of notes required an amendment to be made. Although the matters were not always of a significant nature (although many of our findings, per section 4, were material) they were quite extensive in number, and more amendments were required than we would expect. The Corporation should consider how to strengthen its own quality assurance of the statements prior to draft publication.

The Corporation currently utilises a sub-code within the TVCA general ledger system. Although this is not inappropriate, as the Corporation grows it is leading to considerable effort from finance staff to prepare the statements using spreadsheets to analyse and classify transactions. In addition they have to remove transactions relating to the Corporation's subsidiary South Tees Developments Limited as that also uses the same code. The Corporation needs to take steps to strengthen its financial accounting system and processes to aid efficiency and clarity in reporting, and we understand from discussions with management it is in the process of doing so.

### Significant matters discussed with management

#### *McCloud Judgement*

The McCloud judgement relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. The impact of this was not deemed to be material in 2018/19 for the Corporation, and as such was not included in the 2019 actuarial report the Corporation obtained and used for its financial statements. For the financial year 2019/20 the respective actuarial reports included the likely impact.

In July 2020 Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgement.

Management enquired of Aon Hewitt, in relation to the expected outcome of this change on the LGPS. Aon Hewitt confirmed that the estimate made in the 2019/20 IAS 19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

#### *Goodwin Case*

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

Management enquired of Aon Hewitt, and they have confirmed that there will be an additional liability arising from the Goodwin judgement. Full information is not yet available to accurately calculate the impact, however, based on an estimation, it is expected to have a minor impact. As the impact of this is expected to be well below materiality, no adjustment to the financial statements has been made.

As the McCloud and Goodwin issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements in section 4.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. Management have been very helpful and responsive in addressing our audit queries to date, and we are grateful for the assistance provided. As noted in section 1 of this report, we do have some matters outstanding and some of these are not in the hands of us or management. For those that are we ask management to provide us with the necessary information as soon as possible if we are to complete our work in time for the Board meeting in November. This includes completion of the audit for STDL, so that we can review the work undertaken by the component auditor and determine whether it is adequate for us to rely on as Group auditor.

Given the Government's COVID-19 instruction for the public to work from home if possible, our audit was completed remotely but this did not cause significant difficulties during the audit because:

- we used technology, such as video conferencing, to ensure the audit was completed to the required standards;
- all working papers provided were electronic; and
- we used a team of public sector audit specialists with the same engagement lead, senior manager and team leader as in 2018/19.

At the conclusion of our audit we will review our proposed audit fees, discuss and agree any adjustments needed with management, and report final fees in our Annual Audit Letter.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No objections or questions from local electors have been received.

### 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	NIL
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	NIL
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	NIL

Our work has not identified any significant deficiencies in our 2019/20 audit to report at this stage.

Management will need to ensure that internal controls remain under review as the organisation grows and to ensure that additional controls are added as the Corporation's arrangements continue to become more complex.

Our 2018/19 audit did identify some areas for improvement, and an update on each of these matters is provided below.



### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year (2018/19).

#### 2018/19 Description of deficiency (1)

The Corporation's control framework failed to identify in a timely manner a transaction that was enacted by a member of staff that was deemed to be acting outside of their powers.

#### Potential effects

Potential inappropriate and unauthorised expenditure.

#### Recommendation

The Corporation needs to implement controls to ensure such a recurrence cannot occur.

#### 2019/20 update

No similar matters have come to our attention during our 2019/20 audit.

#### 2018/19 Description of deficiency (2)

On identifying the issue of the termination payment, the Corporation did not take advice from its own Monitoring Officer on a timely basis to gain assurance it was acting within its powers.

#### Potential effects

Potential inappropriate and illegal expenditure.

#### Recommendation

The Corporation needs to ensure it takes advice from its Monitoring Officer on a timely manner where there is uncertainty around whether it is acting within its powers.

#### 2019/20 update

No similar matters have come to our attention during our 2019/20 audit.

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year (2018/19).

#### 2018/19 Description of deficiency (3)

The Corporation did not have an SLA in place that covered the charging arrangements between itself and STSC for the Chief Executive and PA.

#### Potential effects

Lack of clarity about respective responsibilities of each organisation, and the staff member.

#### Recommendation

Where staff are shared between organisations, SLAs should be in place to clearly set out the relevant responsibilities and cost sharing arrangements.

#### 2019/20 update

No similar matters have come to our attention during our 2019/20 audit.

#### 2018/19 Description of deficiency (4)

Loan agreements for the intra group loans between TVCA, STDC, and STDL were not put in place and signed until July 2019.

#### Potential effects

Lack of clarity about responsibilities and obligations between the different group organisations, including payment terms if signed agreements are not in place.

#### Recommendation

If funds are made available to other bodies in the group, this should be underpinned by formal agreements, which should be signed at the time the funds are released.

#### 2019/20 update

No similar matters have come to our attention during our 2019/20 audit.

## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £3.5k for the Corporation and £16.7k for the Group.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2019/20

Comprehensive Income and Expenditure Statement		Balance Sheet	
Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)

There are no unadjusted misstatements to report.

<b>Total unadjusted misstatements</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>
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## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: CIES - net interest on defined benefit liability (Income)	8		
	Cr: CIES - net interest on defined benefit liability (Expenditure)		8	
Relating to interest that should be shown Gross on the face of the CIES.				
2	Dr: CIES - actuarial gains and losses	364		
	Cr: Note 5 - adjustment between accounting and funding basis - pension reserve			364
Relating to the incorrect treatment of pensions.				
3	Dr: CIES - core running costs	364		
	Cr: CIES - Other income and expenditure		364	
Relating to the incorrect treatment of pensions.				
4	Dr: CIES group - core running costs	530		
	Cr: CIES group - Other income and expenditure		530	
Relating to the incorrect treatment of revaluation loss.				
5	Dr : Long term creditors (STDC/Group)	11,215		
		/12,215		
	Cr: Long term borrowing (STDC/Group)		11,215	
			/12,215	
Relating to the incorrect classification of long term borrowing.				

### Adjustments to other primary statements

#### Cashflow statement

- Adjustments required to deficit on provision of services £83k, Movement on pension reserve £364k and Movement on long term creditors £447k relating to the incorrect treatment of pensions.

#### Group Cashflow statement

- Adjustment required to remove incorrect movement on group creditors of £447k;
- Adjustment required to correct revaluation loss stated as £421k instead of £530k; and
- Adjustment required to include fixed asset additions of £30k that were omitted.



## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments

Our audit has identified the following disclosure matters that management has agreed to amend:

- Narrative report – amended to ensure compliance with the Code.
- Note 1 Expenditure and Funding analysis – adjusted to:
  - correct the net changes for pension adjustment;
  - correct the pension payment entry; and
  - Include the £423k development costs omitted.
- Note 2 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted – amendments required to disclose all relevant standards as set out in the Code.
- Note 8 – Employee remuneration – required a number of amendments to:
  - disclose the recharges for the CEO;
  - clarify the recharges and report clearly in respect of the 2 Directors of Finance in post across the year; and
  - set out the periods of office to make the note clearer.
- Note 9 – Property, plant and equipment – required amendment to make reference to the Material Uncertainty clause reported by the Corporation's valuer.
- Note 14 Short term creditors – amended as 2018/19 entry incorrect.
- Note 17 Related Party Transactions – amended to:
  - remove incorrect reference to STDC income of £14k from STDS, which should be NIL;
  - Include VAT where it had not been included;
  - Present the gross Debtor./Creditor position with TVCA rather than the net; and
  - Remove incorrect reference to STDC income of £14k from STDL, which should be NIL.
- Note 18 Audit fees – amended for the STDC and STDC Group as audit fees were misstated for the Corporation and the Group.
- Note 20 Financial instruments – required amendment to remove items that were not contractual or a none financial liability and as such are not financial instruments, and to include maturity analysis of liabilities and sensitivity analysis as required by the Code.
- Note 21 Defined benefit pension schemes – a number of amendments needed where the disclosures were not consistent with the Corporation's IAS19 report.
- Note 27 Capital adjustment account – required amendment to separate disclosure for STDC and STDC Group.
- Note 28 Capital expenditure and financing - required amendment to separate disclosure for STDC and STDC Group.
- Note 28 Capital expenditure and financing (Group) – required amendment to include additions.
- Note 29 Statement of Accounting Policies – amendments required to add extra policies that were omitted, enhance policies that required further information, and correct references that were incorrect.
- Disclosure amendments such as to describe the nature of each reserve, the de-minimus for PPE additions, and fair value disclosures, as required by the Code.
- A significant number of other amendments relating to heading, grammatical, consistency or incorrect year references were required.

The wording of the Annual Governance Statement required amended to update for the Head of Internal Audit Opinion, include reference to STDL as a STDC group component, and clarify whether any significant control matters were identified as required by the Code. Management have agreed to amend for the final version.

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## 5. VALUE FOR MONEY CONCLUSION

### Our approach to Value for Money

We are required to form a conclusion as to whether the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Corporation had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<ul style="list-style-type: none"> <li>• Constitution in place, available on the Corporation's website, and refreshed to reflect the changing nature of the Corporation.</li> <li>• Corporation has a 'Master Plan' which details the plan in place for the redevelopment and regeneration of the South Tees site.</li> <li>• Board with elected Mayor of Tees Valley Combined Authority (TVCA), leaders of the 2 local authorities and other members from the wider business community, South Tees Site Company Ltd (STSC) and LEP/TVCA board members.</li> <li>• Management team in place (with links to TVCA and STSC).</li> <li>• No data quality issues in respect of performance information we are aware of.</li> <li>• Audit and Risk Committee meets on a regular basis, which oversees internal and external audit, and has spent considerable time this year reviewing the strengthening of the Corporation's arrangements for risk management.</li> <li>• Internal audit function in place.</li> <li>• Budgets in place.</li> <li>• Periodic reporting to Board and Audit Committee of financial performance in the year.</li> </ul>	Yes
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• Master Plan and Financial Plan in place (within known funding timescales).</li> <li>• Master Plan identifies future large scale capital schemes/priorities.</li> <li>• Risk management of capital asset purchased in the year evident from reporting to Board and the Audit and Risk Committee.</li> <li>• HR/payroll functions in place through other bodies.</li> <li>• Finance function supported by TVCA.</li> </ul>	Yes
Working with partners and other third parties	<ul style="list-style-type: none"> <li>• Master Plan details the key strategic plans and priorities and how it will work with partners to develop the South Tees Site.</li> <li>• The Corporation has written procedures for procuring products and services, which are within its Constitution.</li> </ul>	Yes

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

The Corporation continues to grow and develop and we have seen arrangements change since 2018/19 as it has done so. We also note that it has continued to change arrangements since March 2020 to respond to its changing structures. Management and the Board will need to continue to ensure that arrangements and policies and procedures for securing economy, efficiency and effectiveness in its use of resources remain under review and are adjusted appropriately as the organisation continues to grow and becomes ever more complex.

### Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Corporation being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risk(s). We have kept this under review throughout our audit and are satisfied that there are no significant risks apparent.

### Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

To:  
Mr Cameron Waddell  
Partner  
Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

[Date]

### South Tees Development Corporation (and Group) - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of South Tees Development Corporation (and Group) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

#### My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Corporation/Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Financial Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Board and Committee meetings, have been made available to you.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

#### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

#### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Corporation/Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Corporation/Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### Fraud and error

I acknowledge my responsibility as Chief Financial Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Corporation/Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Corporation's/Group's financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Corporation's/Group's related parties and all related party relationships and transactions of which I am aware.

### Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

### Charges on assets

All the Corporation's/Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Corporation/Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Corporation/Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Director of Finance

Date.....

(PLEASE ADD THE APPENDIX OF UNADJUSTED MISSTATEMENTS TO THIS LETTER)

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of South Tees Development Corporation

#### Report on the financial statements

##### Opinion

We have audited the financial statements of South Tees Development Corporation ('the Corporation') and its subsidiaries ('the Group') for the year ended 31 March 2020, which comprise the STDC Movement in Reserves Statement, STDC Group Movement in Reserves Statement, STDC Comprehensive Income and Expenditure Statement, STDC Group Comprehensive Income and Expenditure Statement, STDC and Group Balance Sheet, STDC and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the Group as at 31<sup>st</sup> March 2020 and of the Corporation's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### THE WORDING OF THIS PARAGRAPH IS SUBJECT TO INTERNAL REVIEW AND IS SUBJECT TO CHANGE

##### Emphasis of Matter

###### Material uncertainty relating to valuation of land and property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note (TBC) to the financial statements concerning the material valuation uncertainty statement made by the Corporation's valuer.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Corporation's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The Director of Finance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Director of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Corporation is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Corporation and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Conclusion on South Tees Development Corporation's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, South Tees Development Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Corporation had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Corporation put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Corporation had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Responsibilities of the Corporation

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

### **Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Use of the audit report**

This report is made solely to the members of South Tees Development Corporation as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Certificate**

We certify that we have completed the audit of South Tees Development Corporation in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Cameron Waddell  
Partner  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham  
DH1 5TS

[Date]

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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## CONTACT

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## South Tees Development Corporation - Audit & Risk Committee

### Forward Programme

#### Standing Items

Minutes from the Previous Meeting  
 Risk Register  
 Internal audit progress report  
 External audit progress report  
 Forward Programme and Action register  
 Date of the Next Meeting

<b>Audit &amp; Risk Committee</b>		
<b>Date</b>	<b>Venue</b>	<b>Item / Responsible Officer</b>
21 <sup>st</sup> October 2020	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit Report – TBC (from contingency)  Update on Internal Audit Actions  Risk Update  External Audit – Audit Completion report (STDC & Group) - Mazars
16 <sup>th</sup> December 2020	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit- Key financial controls  External Audit – Progress report (STDC and Group) – Mazars  External Audit – Annual Audit letter (STDC and Group) – Mazars  External Audit – Annual Audit letter (STDL) – Tait Walker  2019/20 Final Accounts
24 <sup>th</sup> February 2021	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal audit Follow up  Internal Audit Project Management Review – Tait Walker  External Audit – 2020/21 Audit Strategy Memorandum (STDC and Group) - Mazars

<b>Proposed Items to be scheduled</b>

**Contacts:**

**Sharon Jones – Governance & Scrutiny Officer**

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## Actions from STDC Audit & Risk Committee meeting 29<sup>th</sup> July 2020

Number	Action	Person responsible	Due Date	Status
1.	Tata retention – Ongoing and dependent on response from Tata. Updates to be provided as and when available. Ultimate deadline for this is 21 <sup>st</sup> February 2021	MR	21-02-21	Ongoing
2.	Combined Risk Register for DC and SC to be drafted by October 2020	GM	Oct 2020	
3.	Consideration to be given to wording within Draft Accounts paper in respect of the impact of COVID 19	GM	ASAP	
4.	Internal Audit Plan - Evidence assurance on the outsourcing of financial systems required.	GM	Next Meeting	
5.	Internal Audit actions - Provision of an update on progress of actions between Meetings required	GM/MR	End of August 20	
6.	Internal Audit actions - Report detailing progress and closure of actions required	GM/MR	Next Meeting	
7.	Sub Group to be formed and meet in advance of next Meeting to consider Forward Programme	GM	Before next Meeting	